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PANEL
ON FEDERAL TAX REFORM

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Federal Tax Reform Comment Submission June 1, 2005

The attached document, "FAIR & SIMPLE TAX REFORM FOR AMERICA", is submitted to the President's Advisory Panel.

The plan proposes extensive streamlining of the current Federal tax code with the primary purpose of tax simplification. A PDF copy of the document is available on the internet at <http://www.taxsimplification.com>

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FAIR & SIMPLE TAX REFORM FOR AMERICA

ABSTRACT

This document proposes extensive streamlining of the current Federal tax code with the primary purpose of tax simplification. The result is a modified two-step flat tax plan that would save millions of hours in personal and professional tax accounting and record keeping while providing an equitable structure for collection of tax receipts.

INTRODUCTION

It is unlikely that a common public consensus for definition of a fair tax system will ever be realized. At one extreme, it would be considered fair by many if the very highest earning Americans paid 100 percent of the taxes, while the rest paid nothing and even received a large transfer payment. Conversely, there are some that would apply the "fair" vending machine model to our Federal taxes. That is, just as each customer pays the same amount for a soda from the machine, Federal government services and protections available to all on a nearly equal basis should likewise cost each of us the same dollar amount, regardless of one's income. Somewhere in between these two extremes we have the present graduated income tax, where a higher percentage of income is paid in taxes as our income increases. The problem with the present system is that it is unnecessarily complex: Practically every filer is now the recipient of some tax credit or other advantage, in some cases resulting in mutual cancellation of the intended benefit and requiring untold additional hours of tax preparation. Apparent contradictions in the tax law abound. For example, what is the point of promoting bonds that promise tax-free interest income on the one hand, only to demand an "alternative minimum tax" on the other?

How do we create a tax system that is both simple and fair? The basic premise of tax fairness to be considered here is as follows: *In the current economic climate of the 21st century, our government should be taxing Americans from their **abundance** and not from their **need**.* The unfairness of the present system becomes clear when we observe that (1) many Americans are paying taxes from income levels below or barely sufficient to meet basic living expenses and (2) wealthy Americans pay unequal percentages from their "abundance". An equitable system demands that no tax be levied on the portion of income that is required to cover basic living expenses. When income exceeds these expenses, it would at first seem reasonable that "discretionary" income be taxed at the same (flat) rate. In developing this tax model, it became evident very early that a universal flat rate is economically non-viable. Until general economic prosperity can be expanded, or Federal expenditures can be curtailed, a "high income step" must be added to any flat tax model.

The modified flat tax model will take a hard look at granting deductions from income for the purpose of reducing tax liability unless the result would be of generally universal benefit to the country and not to individual special interest groups. The premise of fairness applied in this model and requirement of simplicity has resulted in the development of a tax model with the following features:

- Only that portion of income will be taxed that exceeds the average expenditures of Americans for the five categories of basic living expenses: Food, Housing, Apparel, Transportation and Health Care.
- For purposes of assuring a simple system, local and regional differences in the above costs are not considered, but the model recognizes and applies differences in family size.
- The resulting model will remove millions of Americans from the tax rolls, except that an Earned Income Tax Credit (or equivalent) may be available to more Americans.
- Because the cost of living deduction reasonably reflects actual and substantial amounts, deductions for low and fixed income Americans will generally result in zero tax liability, even when social security benefits are included as a source of taxable income. Fifty percent of formerly non-taxable municipal bond income would be taxable, but the Alternative Minimum Tax would be eliminated. This will enable municipalities to continue to attract bond investors and still allow for a simple tax system.

- Deductions for qualified retirement savings plans and additional expenses beyond the five basic categories will be allowed in cases where providing such incentives is generally beneficial to the country overall. Examples include IRAs and 401(k) accounts, a substantial portion of long term capital gains, post-secondary education tuition expenses, gifts to charity, and adoption expenses. Conversely, many of the deductions permitted under the present Form 1040, Schedule A, would be eliminated or reduced. e.g. No deduction for other taxes paid or for home mortgage interest as deductions for these items are included within the deduction allowed for the five basic cost of living categories. Deductions for casualty losses and medical expenses above a defined floor would continue. The rationale here is that when these costs are incurred, they are often well beyond the averages included in the basic cost of living allowance and can have a catastrophic impact on family finances. Deductions for charitable contributions would require 1099 reporting.
- As a further step in decreasing the accounting and paperwork burden on our citizens, states and income taxing localities would be provided a financial incentive to alter their present income tax code so that state tax is a simple fixed percentage of a filer's federal tax liability. No separate state tax form would be required. Naturally, the state tax percentage would be up to each state to establish, as would be the very decision to participate in the plan. States could save additional millions of dollars by eliminating income tax reporting altogether and allowing the Federal government to act as their agent in collecting state tax receipts. If such a program could be implemented, taxpayers would no longer be required to file separate state and local tax returns.

DATA SOURCES

This model uses a number of data sources, including "Bureau of Labor Statistics, Consumer Expenditure Survey 1999. Cross-tabulated Tables of Size of Consumer Unit by Income before Taxes." Using reported data from Table 4. Size of Consumer Unit: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 1999, for family sizes of 1, 2 and 4, the following numbers were determined:

Table 1. Mean 1999 Living Costs by Family Size

| Family Size | 1 | 2 | 4 |
|----------------|-----------|-----------|-----------|
| Cost of Food | \$ 2,685 | \$ 5,085 | \$ 7,021 |
| Housing | \$ 8,207 | \$ 12,171 | \$ 15,954 |
| Apparel | \$ 933 | \$ 1,645 | \$ 2,698 |
| Transportation | \$ 3,536 | \$ 7,427 | \$ 9,486 |
| Health Care | \$ 1,336 | \$ 2,475 | \$ 2,070 |
| Total | \$ 16,697 | \$ 28,803 | \$ 37,229 |

Using information from the above table, we can arrive at the following allowable deductions from income for a tax filer:

Table 2. Cost of Living Allowance Amounts (1999 and Adjusted for 2004)

| | 1999 | 2004 |
|--------------------------|-----------|-----------|
| Self | \$ 16,697 | \$ 19,035 |
| Spouse | \$ 12,106 | \$ 13,801 |
| Each Qualified Dependent | \$ 4,213 | \$ 4,803 |

Adding the cost of living amounts for self, spouse and two dependents, we find that a family of four would have no tax liability until income exceeds \$37,229 (1999 dollars) or \$ 44,442 (2004 dollars). Our present tax system currently authorizes \$3,050 exemption from income for each person plus a \$ 9,500 standard deduction for a married couple filing jointly which amounts to \$21,700 for a family of four plus a \$1,000 credit per child against total tax due for qualifying filers.

The following data are compiled from Table 7 of the Congressional Budget Office (CBO) "Estimates of Federal Tax Liabilities for Individuals and Families by Income Category and Family Type for 1995 and 1999", and applying data from Table 2. From the same source, the total aggregate cash income of Americans projected for 1999 was about \$ 6.4 trillion, or an average of \$ 54,700 for each of 116.7 million families. The projected total of individual income tax receipts for 1999 was about \$ 700 billion. Interpolation calculations were applied to estimate the number of families with income above the cost of living allowance and the mean household income of those families.

Table 3. Cost of Living Deductions for Family Type and Size (1999)

| Family Type/Size | Total No of Families (Millions) | Adults in Family | Other Dependents | Cost of Living Allowance (CLA) from Table 2 | No. of Families with Income above CLA (Millions) | Mean household income of families with Income above CLA |
|------------------------------|---------------------------------|------------------|------------------|---|--|---|
| 2 Adults w/Children under 18 | 29.6 | 2 | 2.2 | \$ 38,072 | 22.4 | \$ 97,472 |
| 1 Adult w/Children under 18 | 8.9 | 1 | 1.8 | \$ 24,280 | 3.5 | \$ 49,560 |
| Families w/ no children | 46.1 | 2 | 0 | \$ 28,803 | 30.0 | \$ 85,686 |
| Individuals | 32.1 | 1 | 0 | \$ 16,697 | 20.1 | \$ 28,661 |

The household income of families with income above their cost of living allowance, as shown in the last column of Table 3, includes amounts which will not be subject to tax under the proposed model. The non-taxable income includes amounts contributed to conventional IRAs and 401(k)s, 35% of long term capital gains and 50% of the interest from municipal and similar bonds formerly not taxable. It is estimated that the portion of household income not subject to taxation plus additional allowed deductions would be about 10% of the household income for these families. This amount has been subtracted from the total income to determine an "Equivalent AGI (Adjusted Gross Income)" shown in Table 4.

Table 4. Aggregate Income Subject to Flat Tax

| Family Type/Size | Equivalent AGI | Equivalent AGI above CLA | Aggregate AGI above CLA (Millions) |
|------------------------------|----------------|--------------------------|------------------------------------|
| 2 Adults w/Children under 18 | \$ 87,725 | \$ 49,653 | \$ 1,112,227 |
| 1 Adult w/Children under 18 | \$ 44,604 | \$ 20,324 | \$ 71,134 |
| Families w/ no children | \$ 77,177 | \$ 48,374 | \$ 1,451,220 |
| Individuals | \$ 25,795 | \$ 9,098 | \$ 182,870 |
| Grand Total | - | - | \$ 2,817,451 |

The Grand Total of Aggregate AGI above CLA in Table 4 is the total income subject to the flat tax in our model. The single flat tax rate applied to this amount that would be needed to generate \$ 700 Billion in income tax revenues is 25 %. This number represents a relatively high marginal rate because it reflects the cost of reducing the revenues from high income Americans and removing millions of lower-income families from the tax rolls. This single step flat rate would result in unreasonably high taxes for upper middle income singles and single parent families. A rate in the range of 15% to 19% would seem more reasonable. However, any such rate will result in a shortfall.

Funding this shortfall will require that the highest earning or wealthiest Americans pay more. The question to be answered is: how do we define "wealthy"? In this model, the definition of wealthy depends upon the relation of family income to family cost of living. Table 5 shows the result if we were to define "wealthy" as any family whose income exceeds 3 times their cost of living allowance.

Table 5. Families with Household Income Greater Than Three Times Family Cost of Living.

| Family Type/Size | No. of Families with Income above 3 X CLA (Millions) | Mean Household income of families with Income above 3 X CLA | Equivalent AGI | Equivalent AGI above 3 X CLA | Aggregate AGI above CLA (Millions) |
|------------------------------|--|---|----------------|------------------------------|------------------------------------|
| 2 Adults w/Children under 18 | 3.9 | \$ 252,000 | \$ 226,800 | \$ 112,584 | \$ 439,078 |
| 1 Adult w/Children under 18 | 0.5 | \$ 120,000 | \$ 108,000 | \$ 35,157 | \$ 17,578 |
| Families w/ no children | 8.6 | \$ 165,000 | \$ 148,500 | \$ 62,091 | \$ 533,983 |
| Individuals | 5.5 | \$ 96,000 | \$ 86,400 | \$ 36,309 | \$ 199,700 |
| Grand Total | | - | | | \$ 1,190,339 |

We have identified, then, an "additional" \$1.19 trillion in taxable income. For purposes of maintaining a simple tax code, we will try to determine a single rate (1) to apply to all income above the CLA and (2) to apply as a high-income added tax to all income more than 3 times CLA. The defining empirical expression then becomes

$$2.82r + 1.19r = T \quad \text{or (very nearly)} \quad T = 4r$$

where: r = tax rate, expressed as a decimal fraction
and T = total revenues to be collected, expressed in trillions of dollars.

Table 6 presents the expected revenue in 1999 dollars from the combination of the flat rate plus the same flat rate applied against income greater than 3 times CLA.

Table 6. Anticipated Tax Revenues (1999 Dollars) for a 2 Step Flat Tax after Cost of Living Allowance

| Tax Rate | Total Individual Income Tax Revenues (Billions) |
|----------|--|
| 15% | \$ 600 |
| 16% | \$ 640 |
| 17% | \$ 680 |
| 18% | \$ 720 |
| 19% | \$ 760 |
| 20% | \$ 800 |

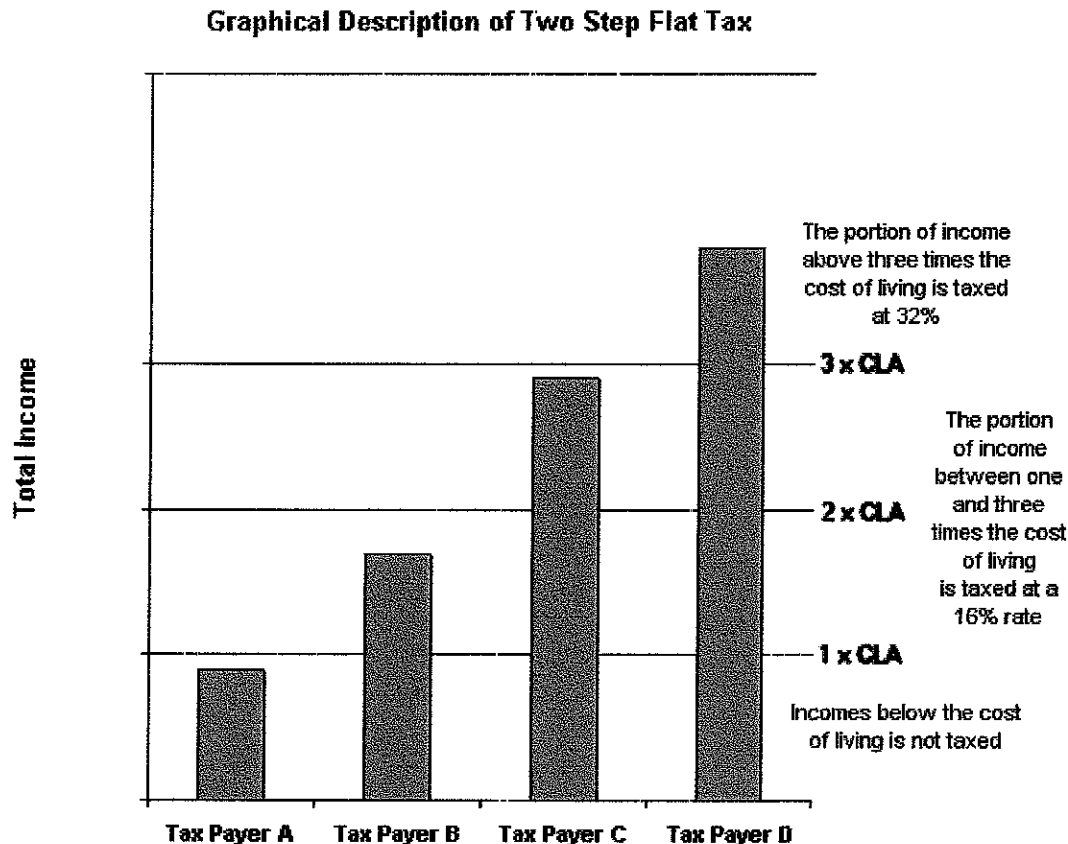
For example, in order to generate \$ 640 billion in income tax revenue, all filers would pay 16% of their income above the calculated cost of living adjustment (CLA) for their family size plus an additional 16% on income that exceeds three times their CLA. Thus, the marginal tax rate for high income Americans would be 32%. Table 7 shows a range of income for various filers. It also compares the overall tax rate with respect to total family income under the proposed system with CBO data for the current tax system.

Table 7. Flat Tax (Base Amount and High-Income Added Tax) for Various Family Size and Income

| Filing Status | Married Filing Jointly | Married Filing Jointly | Married Filing Jointly | Head of Household | H of H (Single) | H of H (Single) |
|---|---------------------------|---------------------------|---------------------------|----------------------|--------------------|--------------------|
| Personal Exemptions | 2 | 2 | 2 | 1 | 1 | 1 |
| Number of Dependents | 2 | 3 | 0 | 2 | 0 | 0 |
| Household Income | \$ 530,000 | \$ 45,100 | \$ 86,300 | \$ 59,400 | \$ 44,500 | \$ 86,800 |
| Equivalent AGI (90%) | \$ 477,000 | \$ 40,590 | \$ 77,670 | \$ 53,460 | \$ 40,050 | \$ 78,120 |
| Cost of Living Allowance (CLA) | (\$ 37,229) | (\$ 41,442) | (\$ 28,803) | (\$ 25,123) | (\$ 16,697) | (\$ 16,697) |
| Base Taxable Income | \$ 439,771 | 0 | \$ 48,867 | \$ 28,337 | \$ 23,353 | \$ 61,423 |
| Base Tax (16% of BTI) | \$ 70,363 | 0 | \$ 7,819 | \$ 4,534 | \$ 3,736 | \$ 9,828 |
| Additional 2 x CLA | (\$ 74,458) | (\$ 78,412) | (\$ 57,606) | (\$ 47,292) | (\$ 32,588) | (\$ 33,394) |
| Income on which high- income added tax applies | \$ 365,313 | 0 | 0 | 0 | 0 | \$ 28,029 |
| High-income Added Tax (16% of previous line) | \$ 58,450 | 0 | 0 | 0 | 0 | \$ 4,485 |
| Total Tax | \$ 128,813 | 0 | \$ 7,819 | \$ 4,534 | \$ 3,736 | \$ 14,313 |
| Overall Tax Rate | 24.3% | 0 | 9.6% | 7.6% | 8.4% | 16.5% |
| Former Tax Rate (CBO) | 22.9% | 3.7% | 9.1% | 7.8% | 11.6% | 15.5% |

Comparing the overall tax rate under the proposed model with CBO data for the current tax system shows fairly close correlation for the examples presented. The advantage of the proposed system is that it offers a huge reduction in the millions of hours and dollars that Americans now spend preparing their Federal and State income tax returns.

The chart below shows a graphical representation of the relation between income and cost of living for four taxpayers: Taxpayer A has income below his cost of living and zero tax liability. This person would qualify for an earned income tax credit. Taxpayers B and C have incomes above their cost of living, but less than three times their cost living. They would pay tax on the income greater than their cost of living at the 16% rate. Taxpayer D has a higher income. He would pay tax equal to the combined total of (1) 16% of his income above his cost of living plus (2) 32% of his income that lies above the dollar amount equal to three times his cost of living.



IMPLEMENTATION

Major proposed changes to the present filing forms and reporting regulations are shown below:

1. The former tax filing status of "single" would be eliminated. Because the cost of living allowance is based on household size, these filers would now use the "head of household" filing status.
2. The dependent cost of living allowance of \$ 4,803 for each dependent would be multiplied by the percentage of support provided to the dependent by the filer. For married filing separately, each filer would nominally specify 50% support for each dependent. The total support percentage reported by all filers could not exceed 100%. A system for resolving inconsistencies is needed to handle the case, for example, in which separated or divorced filers each claimed 75% support for the same dependent.
3. The new system would eliminate Form 1040, Schedule A Itemized Deductions and many specialized and supporting forms and schedules. Clearly, the system could also benefit from other simplifications (e.g. streamlining of business property depreciation classes as shown on Form 4562) not addressed here.

4. Charitable donations would be encouraged, with deductions permitted up to 30% of total income. Reporting requirements would be tightened by requiring 1099 reporting of donations by the qualified charity.
5. A new filing status, "Dependent", would be added. This would be used by children and other dependents whose income from all sources exceeded \$ 7,020 (determined as half-time employment at minimum wage level).
6. An added simplification would be to set the maximum employment income subject to social security tax and Medicare back into common alignment. This could be accomplished by setting the common cap to something like \$ 100,000 (down from no limit for Medicare and up from \$ 87,900 for social security) and then adjust slightly the relative percent allocated to each.
7. Deductions and other dollar amounts that represent items subject to inflation would be adjusted accordingly each year.
8. Income loss deductions from business and investments would not be capped, but provisions to carry losses "back" would be eliminated. If overall taxable income is negative, 50% of the overall "loss" could be carried forward as an additional deduction on the following year's return.
9. EITC provisions of the tax code were not addressed in the model. A general restructuring may be required.

A completed example of a new 1040 return applying the principles of the two-step tax model at 16% is shown in the Appendix as well as a blank form so that individuals may determine their own tax liability under the proposed system. Deduction amounts on the form reflect a 14% increase above the 1999 source data used above to account for inflation.

The example return is for a fictitious family of five with two earners. Two children live in the home and support is provided to a third through a joint custody arrangement. The family has income from capital gains and interest besides employment. There is a state tax complication due to the fact that the family moved from Arizona to California in the middle tax year. The return assumes that both states participate in the "Federal Tax Collection for State and Local Taxing Authorities" program which makes separate state and local income tax filing unnecessary. For the purposes of the example, the California tax rate is 20.5% of the Federal income tax liability and the Arizona rate is 18.5%.

For the example family, the Federal tax liability comes to \$ 6,299. If there were no children, the same couple would have a total tax liability of \$ 8,220. In both cases, the income was below the level that would result in payment of the high-income added tax.

REFERENCES

<http://www.cbo.gov/showdoc.cfm?index=527&sequence=0&from=1>
<http://stats.bls.gov/cex/csxann99.pdf>

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APPENDIX

| 1040New U.S. Individual Tax Return 2005 | | | | | | | | |
|--|--|---|---|--------------------|----------------|---------------------------|-----------------|-----------------------------------|
| Label | First name & initial Joseph J. | | | Last Name Jones | | Your SSN 111-22-3333 | | |
| | If joint return, spouse first name & initial Jane | | | Last Name Jones | | Spouse SSN 444-55-6666 | | |
| | Home address 121 Elm Street | | | | | | | |
| | City, state zip Anytown, CA 90999 | | | | | | | |
| Filing Status Check Only One Box | 1 | | Dependent (you are listed as a dependent on another return) | | | | | |
| | 2 | x | Married Filing Jointly (even if only one had income) | | | | | |
| | 3 | | Married Filing Separate Return. Enter Spouse SSN above | | | | | |
| | 4 | | Head of Household | | | | | |
| Income | 5 | Wages, Salaries & Tips Attach Forms(s) W-2 | | | | | \$ 86,450 | |
| | 6a | Ordinary Interest Income | | | | | 420 | |
| | 6b | Interest from Qualified Federal, State and Municipal Gov't Agencies | | | | | | |
| | 7 | Dividend Income | | | | | 114 | |
| | 8 | Alimony Received | | | | | | |
| | 9 | Business Income or (Loss). Attach Sched C or C-EZ | | | | | | |
| | 10a | 100% of Short Term Capital Gain or (Loss). Attach Sched D(New) | | | | | (1,450) | |
| | 10b | 65% of Long Term Capital Gain or (Loss). Attach Sched D(New) | | | | | 876 | |
| | 11 | Other Gains or (Losses). Attach Form 4797 | | | | | | |
| | 12 | Taxable IRA Distributions | | | | | | |
| | 13 | Taxable Pensions & Annuities | | | | | | |
| | 14 | Rental real estate, royalties, partnerships, S Corps, trusts, etc. Attach Sched E | | | | | | |
| | 15 | Farm Income or (loss) | | | | | | |
| | 16 | Unemployment Compensation | | | | | | |
| | 17 | Social Security Benefits | | | | | | |
| | 18 | Other Income. List sources and amounts: | | | | | | |
| | 19 | Total Non-employment Income. Add amounts in Lines 6a thru 18 | | | | | (40) | |
| 20 | Total Income. Line 5 + Line 19 | | | | | 86,410 | | |
| Your Cost of Living Allowance | 21 | If Filing Status Box 1 is checked, enter \$ 7,020 If Filing Status Box 2 is checked, enter \$ 32,836 If Filing Status Box 3 is checked, enter \$ 16,418 If Filing Status Box 4 is checked, enter \$ 19,035 | | | | | 32,836 | |
| Cost of Living Allowance for Dependents Enter information for qualifying dependents. In column e, enter the percent of listed individual's support that you provided for food, housing, apparel, transportation and health care. Total support % by all tax filers cannot exceed 100% for any dependent. | 22 | a Name | b SSN | c DOB mm/dd/yy | d Relationship | e support % | f Max Allowance | g Allowance (column e x f)/100 |
| | 23 | Gary Jones | 123-45-6789 | 01/20/98 | son | 100 | \$ 4,803 | 4,803 |
| | 24 | Sue Jones | 234-56-7890 | 06/07/00 | daughter | 100 | \$ 4,803 | 4,803 |
| | 25 | Ken Smith | 345-67-8901 | 09/30/90 | step-son | 50 | \$ 4,803 | 2,402 |
| | 26 | | | | | | \$ 4,803 | |
| | 27 | | | | | | \$ 4,803 | |
| | 28 | | | | | | \$ 4,803 | |
| | 29 | | | | | | \$ 4,803 | |
| | 30 | | | | | | \$ 4,803 | |
| | 31 | Cost of Living Allowance for Dependents. Add 22g. thru 30g. | | | | | | 12,008 |

| 1040New U.S. Individual Tax Return 2005 | | Page 2 | | | | |
|---|---|---|---|--|--|---|
| Deductions from Income | 32 | Total Cost of Living Allowance. Line 21 + Line 31. | 44,844 | | | |
| | 33 | IRA Deductions | | | | |
| | 34 | Medical Saving Account Deduction. Attach Form 8853 | | | | |
| | 35 | Non-taxable distributions from IRAs, Pensions and Annuities | | | | |
| | 36 | One-half of self-employment tax. Attach Schedule SE | | | | |
| | 37 | One-half of interest earned from Gov't entities. Enter 50% Of Line 6 b) | | | | |
| | 38 | Self-employed health insurance deduction. | | | | |
| | 39 | Self-employed SEP, SIMPLE and qualified plans. | | | | |
| | 40 | Alimony paid. Enter recipient's SSN: _____ | | | | |
| | 41 | Qualified post-secondary school tuition you paid for yourself, spouse or dependents. Do not enter more than \$ 10,000 per person. \$ 50,000 max. Attach Forms 1099. | | | | |
| | 42 | Deduction for charitable contributions. Do not enter more than 30% of Line 20. Attach Forms 1099-CC. | 2,200 | | | |
| | 43 | (a) Total Casualty Losses \$ _____ (b) Enter 10% of Line 20 \$ _____ Enter Line 43(a) - 43(b). If less than zero, enter zero. | | | | |
| | 44 | (a) Total Medical Expenses paid by you \$ _____ (b) Enter 10% of Line 20 \$ _____ Enter Line 44(a) - 44(b). If less than zero, enter zero. | | | | |
| | 45 | Child adoption expenses paid by you. SSN of qualifying child _____ Do not enter more than \$ 15,000. | | | | |
| | 46 | Allowed loss carryover from previous year. (Amount = 0 for tax year 2004) | 0 | | | |
| 47 | Total deductions. Total of lines 32 thru 46. | 47,044 | | | | |
| Taxable Income and Tax Computation | 48 | Taxable Base Income. Line 20 - Line 47. If greater than 0, enter here and enter 0 on line 49. Then go to line 50 If less than zero, enter 0 here and go to line 49. | 39,366 | | | |
| | 49 | Loss carryover to next year. Enter 50% of (Line 47 - Line 20). | 0 | | | |
| | 50 | Base tax amount. Enter 16% of Line 48. | 6,299 | | | |
| | 51 | Additional deduction for computation of high-income added tax. Enter 2 times Line 32. | 89,688 | | | |
| | 52 | Income amount on which high-income added tax applies. Line 48 - Line 51. If less than zero then enter 0. | 0 | | | |
| | 53 | High-income Added Tax Amount. Enter 16% of Line 52. | 0 | | | |
| | 54 | Base Tax Plus High-Income Added Tax. Add Line 50 + Line 53. | 6,299 | | | |
| | Other Federal Taxes | 55 | Self-employment tax. Attach Schedule SE (New) | | | |
| 56 | | Social security and Medicare tax on tip income . . . | | | | |
| 57 | | Household employment taxes . . . | | | | |
| Total Federal Tax | 58 | Add lines 54 thru 57. This is your total federal tax. | 6,299 | | | |
| Tax Withheld and Total Amount Due | 59 | Tax Withheld (W-2 Box 2) and Estimated Tax prepayments | 6,130 | | | |
| | 60 | Total Federal Tax Amount Due or (Overpayment). Line 58 - Line 59 | 169 | | | |
| State and Local Income Tax for Participating Taxing Entities | | | | | | |
| 61a. Name of State or Local Tax Authority (W-2 Box 15 or 20) | 61b. Applicable Percentage of Federal Tax to be collected (express as decimal fraction) | 61c. Wages, tips, etc (W-2 Box 16 or 18) + pro-rated portion of non-employment income on Line 19 for this tax authority | 61d. Fraction of Federal Income Subject to State or Local Tax = Line 61c divided by Line 20 | 61e. State or Local Tax Amount = Line 54 x Line 61b x Line 61d | 61f. Tax Withheld (W-2 Box 17 or 19) plus estimated state or local tax prepayments | 61g. Net tax amount or (overpayment amount). Line 61e minus Line 61d. |
| CA | 0.205 | 44,100 | 0.510 | 453 | 300 | 153 |
| AZ | 0.180 | 42,310 | 0.490 | 382 | 420 | (38) |
| | | | | | | |
| Net Federal, State & Local Tax Due or Overpayment Amount | | | 62. Add Line 60 + Lines 61g. Net Total Tax Due or (overpayment amount) | | 284 | |

Blank Forms

| 1040New U.S. Individual Tax Return 2005 | | | | | | | | |
|---|--|---|--------|-----------------|----------------|--------------|-----------------|---|
| Label | First name & initial | | | | Last Name | | Your SSN | |
| | If joint return, spouse first name & initial | | | | Last Name | | Spouse SSN | |
| | Home address | | | | | | | |
| | City, state zip | | | | | | | |
| Filing Status Check Only One Box | 1 | Dependent (you are listed as a dependent on another return) | | | | | | |
| | 2 | Married Filing Jointly (even if only one had income) | | | | | | |
| | 3 | Married Filing Separate Return. Enter Spouse SSN above | | | | | | |
| | 4 | Head of Household | | | | | | |
| Income | 5 | Wages, Salaries & Tips Attach Forms(s) W-2 | | | | | | |
| | 6a | Ordinary Interest Income | | | | | | |
| | 6b | Interest from Qualified Federal, State and Municipal Gov't Agencies | | | | | | |
| | 7 | Dividend Income | | | | | | |
| | 8 | Alimony Received | | | | | | |
| | 9 | Business Income or (Loss). Attach Sched C or C-EZ | | | | | | |
| | 10a | 100% of Short Term Capital Gain or (Loss). Attach Sched D(New) | | | | | | |
| | 10b | 65% of Long Term Capital Gain or (Loss). Attach Sched D(New) | | | | | | |
| | 11 | Other Gains or (Losses). Attach Form 4797 | | | | | | |
| | 12 | Taxable IRA Distributions | | | | | | |
| | 13 | Taxable Pensions & Annuities | | | | | | |
| | 14 | Rental real estate, royalties, partnerships, S Corps, trusts, etc. Attach Sched E | | | | | | |
| | 15 | Farm Income or (loss) | | | | | | |
| | 16 | Unemployment Compensation | | | | | | |
| 17 | Social Security Benefits | | | | | | | |
| 18 | Other Income. List sources and amounts: | | | | | | | |
| 19 | Total Non-employment Income. Add amounts in Lines 6a thru 18 | | | | | | | |
| 20 | Total Income. Line 5 + Line 19 | | | | | | | |
| Your Cost of Living Allowance | 21 | If Filing Status Box 1 is checked, enter \$ 7,020 If Filing Status Box 2 is checked, enter \$ 32,836 If Filing Status Box 3 is checked, enter \$ 16,418 If Filing Status Box 4 is checked, enter \$ 19,035 | | | | | | |
| Cost of Living Allowance for Dependents Enter information for qualifying dependents. In column e., enter the percent of listed individual's support that you provided for food, housing, apparel, transportation and health care. Total support % by all tax filers cannot exceed 100% for any dependent. | 22 | a Name | b. SSN | c. DOB mm/dd/yy | d Relationship | e. Support % | f Max Allowance | g Cost of Living Allowance (column e x f)/100 |
| | 23 | | | | | | \$ 4,803 | |
| | 24 | | | | | | \$ 4,803 | |
| | 25 | | | | | | \$ 4,803 | |
| | 26 | | | | | | \$ 4,803 | |
| | 27 | | | | | | \$ 4,803 | |
| | 28 | | | | | | \$ 4,803 | |
| | 29 | | | | | | \$ 4,803 | |
| | 30 | | | | | | \$ 4,803 | |
| | 31 | Cost of Living Allowance for Dependents. Add 22g. thru 30g. | | | | | | |

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|---|--|---|---|--|--|--|
| Deductions from Income | 32 | Total Cost of Living Allowance. Line 21 + Line 31. | | | | |
| | 33 | IRA Deductions | | | | |
| | 34 | Medical Saving Account Deduction. Attach Form 8853 | | | | |
| | 35 | Non-taxable distributions from IRAs, Pensions and Annuities | | | | |
| | 36 | One-half of self-employment tax. Attach Schedule SE | | | | |
| | 37 | One-half of interest earned from Gov't entities. Enter 50% Of Line 6 b) | | | | |
| | 38 | Self-employed health insurance deduction. | | | | |
| | 39 | Self-employed SEP, SIMPLE and qualified plans. | | | | |
| | 40 | Alimony paid. Enter recipient's SSN: _____ | | | | |
| | 41 | Qualified post-secondary school tuition you paid for yourself, spouse or dependents. Do not enter more than \$ 10,000 per person. \$ 50,000 max. Attach Forms 1099. | | | | |
| | 42 | Deduction for charitable contributions. Do not enter more than 30% of Line 20 Attach Forms 1099-CC. | | | | |
| | 43 | (a) Total Casualty Losses \$ _____ | | | | |
| | | (b) Enter 10% of Line 20 \$ _____ Enter Line 43(a) - 43(b). If less than zero, enter zero. | | | | |
| | 44 | (a) Total Medical Expenses paid by you \$ _____ | | | | |
| | | (b) Enter 10% of Line 20 \$ _____ Enter Line 44(a) - 44(b). If less than zero, enter zero. | | | | |
| 45 | Child adoption expenses paid by you. SSN of qualifying child _____ Do not enter more than \$ 15,000. | | | | | |
| 46 | Allowed loss carryover from previous year. (Amount = 0 for tax year 2004) | 0 | | | | |
| 47 | Total deductions. Total of lines 32 thru 46. | | | | | |
| Taxable Income and Tax Computation | 48 | Taxable Base Income. Line 20 - Line 47. If greater than 0, enter here and enter 0 on line 49. Then go to line 50 If less than zero, enter 0 here and go to line 49. | | | | |
| | 49 | Loss carryover to next year. Enter 50% of (Line 47 - Line 20). | | | | |
| | 50 | Base tax amount. Enter 16% of Line 48. | | | | |
| | 51 | Additional deduction for computation of high-income added tax. Enter 2 times Line 32. | | | | |
| | 52 | Income amount on which high-income added tax applies. Line 48 - Line 51. If less than zero then enter 0. | | | | |
| | 53 | High-income Added Tax Amount. Enter 16% of Line 52. | | | | |
| | 54 | Base Tax Plus High-Income Added Tax. Add Line 50 + Line 53. | | | | |
| Other Federal Taxes | 55 | Self-employment tax. Attach Schedule SE (New) | | | | |
| | 56 | Social security and Medicare tax on tip income . . . | | | | |
| | 57 | Household employment taxes . . . | | | | |
| Total Federal Tax | 58 | Add lines 54 thru 57. This is your total federal tax. | | | | |
| Tax Withheld and Total Amount Due | 59 | Tax Withheld (W-2 Box 2) and Estimated Tax prepayments | | | | |
| | 60 | Total Federal Tax Amount Due or (Overpayment). Line 58 - Line 59 | | | | |
| State and Local Income Tax for Participating Taxing Entities | | | | | | |
| 61a. Name of State or Local Tax Authority (W-2 Box 15 or 20) | 61b. Applicable Percentage of Federal Tax to be collected (express as decimal fraction) | 61c. Wages, tips, etc (W-2 Box 16 or 18) + pro-rated portion of non-employment income on Line 19 for this tax authority | 61d. Fraction of Federal Income Subject to State or Local Tax = Line 61c divided by Line 20 | 61e. State or Local Tax Amount = Line 54 x Line 61b x Line 61d | 61f. Tax Withheld (W-2 Box 17 or 19) plus estimated state or local tax prepayments | 61g. Net tax amount or (overpayment amount). Line 61e minus Line 61d |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Net Federal, State & Local Tax Due or Overpayment Amount | | | 62. Add Line 60 + Lines 61g. Net Total Tax Due or (overpayment amount) | | | |